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16 October 1989

MEMORANDUM: WESTERN ASSISTANCE FOR POLAND AND HUNGARY

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The EC has provided the bulk of new economic assistance from non-US sources already disbursed to Poland and Hungary. The EC also is taking a leading role in additional assistance pledged or under consideration, while West Germany is the largest individual country contributor.

Assistance for Poland

The aid already disbursed by Western countries has gone only to Poland:

- The EC has begun disbursement of \$151 million in direct food aid that is to be delivered over the next 6 months.
- France has extended \$23 million in new short-term credit.

Pledges of additional assistance for Warsaw go beyond food aid to loans for rebuilding the Polish economy:

- Poland is likely to be the major beneficiary of the EC's "Action Plan" for Poland and Hungary, although the Commission has not yet specified how the funds will be split between the two countries. The plan calls for \$325 million (\$215 million from the EC budget and \$110 million from the individual member states) for management training, environmental cleanup, and agricultural assistance as well as \$1 billion in European Investment Bank loans, pending the conclusion of IMF accords, to support private investment projects.
- The Nordic countries are offering \$135 million for training, environment, and agriculture. Britain is offering \$40 million for management training and Switzerland has pledged \$3 million in food aid.
- Bonn is offering export credit guarantees that could reach \$1.5 billion, while Paris has pledged \$78 million in medium-term credit contingent on an IMF program.

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- Japan is offering \$35 million of credits tied to exports and \$10 million in food aid. Canada has announced a package of \$17 million in credit guarantees contingent on an IMF program and \$10 million in food aid; Ottawa also plans to earmark \$8 million for private sector development in Poland and Hungary.

Assistance under consideration focuses on trade concessions and the US-proposed \$1 billion currency stabilization package:

- The EC has proposed lifting as of January 1990 those quotas on Polish imports that currently apply only to state-trading countries and the EC, Japan, and Canada are considering granting Poland GSP status.
- Tokyo reportedly is preparing a plan to grant Poland \$40 million in food aid and to earmark another \$40 million for management training and environmental protection in Poland and Hungary.
- The other G-7 governments are studying President Bush's proposal for contributions to the stabilization package. Bonn, however, has indicated that its contribution may have to be a loan rather than a grant since its legislation authorizes grants only to developing countries.

Assistance for Hungary

Hungary has not received emergency aid because its economic needs are less dire than Poland's, but the EC and several governments have pledged assistance to help implement its reforms. Western governments are convinced that economic assistance to Hungary will prove more worthwhile than aid to Poland because Budapest's economic reforms are much further advanced than Warsaw's:

- Hungary is slated to benefit from the EC's "Action Plan," although its share of the \$315 million in assistance and the \$1 billion in EIB loans is uncertain.
- Bonn will guarantee \$250 million and regional governments will guarantee half of another \$250 million in loans extended by West German commercial banks, while London has pledged an unspecified amount of management training funds.
- Budapest will earn hard currency of uncertain amount from wheat sales to Switzerland which the Swiss in turn will donate to Poland.

Assistance under consideration focuses on trade concessions:

- The EC is considering lifting as of January 1990 those quotas on Hungarian exports to the Community that apply only to state-trading countries. These quotas were to be phased out by 1995 under the 1988 EC-Hungarian trade and cooperation agreement.
- The EC, Japan, and Canada are considering granting Hungary GSP status.
- Hungary would receive an unspecified share of the reported \$40 million the Japanese plan to give to Poland and Hungary for training and environment and the \$8 million Ottawa is earmarking for private sector development.

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